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April 13, 1992

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

PBGC seeks simplification

The PBGC proposed changes last week to simplify the rules under which defined benefit plans pay premiums. The proposals would eliminate early filings for plans with between 500 and 5,000 participants and extend the premium due date for all plans. The proposals also would cut employers' administrative costs.

Retirees to appeal decision

Blue Cross of California retirees who sued their company for improperly selecting annuities from Executive Life Insurance plan to appeal a federal district court's decision to dismiss their suit. The decision last month was the first court ruling in suits brought against employers that terminated overfunded pension plans and then bought annuities from Executive Life.

SEC member endorses plan

SEC Commissioner Mary Schapiro endorsed a proposal to ease election of minority directors to boards.

She favors a plan to allow shareholders to propose their own directors without fighting over corporate control. Shareholders would be allowed to incorporate on their own ballots the names of some of management's nominees for the board with dissident candidates.

She also said the SEC expects to re-propose its proxy reform rules by late spring, with final approval possible in the fall.

Money managers hired

● The $55 million **Tennessee Farmers Cooperative Pension Fund** hired two equity and two fixed-income managers.

Montag & Caldwell and City

Continued on page 40

INSIDE

AP WIDE WORLD PHOTOS

Saving Mother Earth

Environmental issues are becoming more important to institutional investors, who have sought changes in corporate practices through proxy resolutions and are investing in 'green' funds. Page 3.

Investors cheer GM shake-up

Directors 'have a job to do'

MICHAEL A. MARCOTTE

John Smale, the new chairman of General Motors' executive committee, now is a much more influential force at the company.

By Joel Chernoff

The shake-up at General Motors Corp. sends a clear message to corporate America that outside directors can play a major role in steadying a company that has gone adrift, shareholder activists say.

And although institutional shareholders weren't behind the GM board's move to reshuffle the executive suite, they deserve credit for creating the environment that encouraged change at the behemoth company, observers said. Shareholder activists have been pressuring GM for at least five years.

"The shake-up at General Motors demonstrates that non-executive directors can be shareholder watchdogs rather than the chairperson's poodles," said New York City Comptroller Elizabeth Holtzman. Her office oversees the $41 billion New York City Employees' Retirement System, which holds 3.7 million shares of GM common stock.

Richard Koppes, general counsel for the $68 billion California Public Employees' Retirement System, Sacramento, said the events at GM last week "send a very, very dramatic message to corporations that independent directors have a job to (do)." The California fund, which has pressed for changes at GM for two years, holds 4.3 million of the company's stock.

What is particularly striking is that independent directors, holding 11 of 15 board seats, made the changes absent a takeover or restructuring proposal, several analysts said. That bodes well for directors taking a more aggressive posture in corporate affairs and would dispel the image of them as meek and mild followers of the chief executive officer.

Independent directors at GM, led by former Procter & Gamble Co. Chairman and Chief Executive Officer John G. Smale, removed GM Chairman Robert C.

See **GM** *on page 40*

Custody price war looms over banks

Will rivals match State Street's fees?

By Steve Hemmerick

State Street Bank and Trust Co.'s competitors fear the bank is launching a custody and trust business price war just as bidding for several multibillion dollar global custody contracts begins.

Such a battle would affect not only public and corporate pension funds, but also mutual funds, insurance companies and virtually every other institutional investor needing custody, accounting or financial reporting services.

When State Street launched a similar price war with international indexing for large accounts, fees were lowered permanently.

Competitors' new fears stem from State Street's shockingly low — and successful — bid of a little more than half a basis point annually for a five-year contract to handle the $68 billion California Public Employees' Retirement System's domestic and global custody business.

"Everybody was shocked" by State Street's custody bid, said Michael Borkan, vice president in the master trust/custody division at Bank of New York.

"Holy mackerel! What are they (State Street bidders) counting?" asked an executive with a major New York trust bank who didn't want to be identified. He said he couldn't figure out how State Street executives were determining their costs.

State Street, in part, might be banking on its abilities in the global custody arena to make the California funds' business pay off. With domestic custody prices at or near rock-bottom prices at most banks, most competitions generally are won or lost because of the pricing for international services.

After State Street, the next lowest fee was from Bank of New York, which submitted a bid of about one basis point. Boston Safe Deposit and Trust Co., the incumbent in the contest, bid a little less than two basis points.

The difference in bids means the California employees' fund could save almost $41 million in custody costs over five years by going with State Street.

With a similar low bid, State Street renewed its contract with the $34 billion California State Teachers' Retirement System.

In a determined attempt to win the California Teachers' custody business, Bankers Trust Co., New York, the other finalist, tried to top the State Street fee at the last moment. Fund trustees, however, reminded Bankers Trust that no

See **Custody** *on page 43*

What pension execs earn

Fund size	Salaries			
Corporate	High	Median	Mean	Low
To $500 mil.	$218,000	$89,750	$101,461	$46,000
$501-$1,000 mil.	240,000	101,750	113,246	62,800
$1,001-$2,500 mil.	263,000	95,000	101,242	47,000
$2,501+ mil.	320,000	140,000	149,718	74,500

JOHN SMITHER

Corporate executives receive 4.4% raises

By Michael J. Clowes

Salary increases for corporate pension executives for 1992 were slightly better than inflation, but executives at public pension funds lost purchasing power on average while Taft-Hartley fund executives broke even.

Tables of salaries by fund size and type begin on page 20.

Corporate pension executives received average salary increases of 4.4% for 1992, a *Pensions & Investments* survey shows, slightly more than the 1991 Consumer Price Index increase of 3.1%.

Public fund executives received average increases of only 2.7%. Taft-Hartley fund executives received increases averaging 5.3%, but this figure was distorted by the 11.9% average increases granted to executives at the very largest union funds.

For corporate executives, the largest salary increases — averaging 4.9% — were gained by executives at funds with assets exceeding $2.5 billion.

For public employee funds, the largest increases (averaging 4.3%) were gained by executives of funds with assets ranging between $1 billion and $2.5 billion.

Excluding increases for the executives at the very largest funds, the salary increases for Taft-Hartley fund executives exactly matched the CPI increase of 3.1%.

Corporate pension executives who manage money internally earn substantially more on average than their peers who do not, the *P&I* survey showed.

The median 1992 salary for a corporate pension executive managing money internally, the sur-

See **Salaries** *on page 26*

NEWS DIGEST

AT&T employees and those at nine other companies have hired at their own expense a consulting firm to advise them on asset allocations for their 401(k) accounts. Page 42.

Institutional investors are in the crossfire of lobbying efforts over interstate branch banking. Page 4.

The District of Columbia Retirement Board is fighting proposals to cut the city's pension contribution and force the system to pay administrative expenses. Page 6.

Investors believe continued opportunity for strong equity performance lies with the smallest of the small — mini-cap or micro-cap stocks. Page 27.

Ronald Reagan should get an Oscar for his performance as the labor leader critical in the formation of pension funds covering the movie industry. Page 38.

SPECIAL REPORT: THE COMPLETE PENSION EXECUTIVE

The role of the pension executive is evolving from caretaker of a sleepy job to a key financial manager in a distinct career path. Page 19.

As pension executives' jobs grow more complex and visible, the effect on individuals runs the gamut from sterling success to dreary disappointment. Page 25.

FINANCING

Institutional investors are looking with curiosity but some skepticism at a new $100 million equity-linked note issue by Hewlett-Packard. Page 41.

INTERNATIONAL

Robert Maxwell's Mirror Group Newspapers PLC has agreed to create two new pension plans. Page 2.

DEPARTMENTS

Classified	40	Opinion	14
Commentary	16	Pension Surplus Index	10
Current accounts	33	People	28
Frontlines	8	Portfolio management	31
Hirings	32	Valuation index	8

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International survey out

Questionnaires for *Pensions & Investments'* annual survey of international managers have been mailed. The completed forms must be returned by May 9. A directory of international managers will be published June 22. If you would like to receive a questionnaire, or if you have any questions, contact Karen Waters, directory coordinator, at (312) 649-5240.

Caterpillar alters benefits

Pension and health issues part of impasse with UAW

By Curtis Vosti

PEORIA, Ill. — Caterpillar Inc. boosted pension benefits 3.2% this month, and intends to cut retiree health costs beginning July 1 in the absence of a collective bargaining agreement with its unionized workers.

The six-month labor dispute reached a critical point last week as Caterpillar began advertising for replacements for the 12,600 workers now on strike.

The two sides have been at an impasse since Oct. 1, when the company's contract with the United Auto Workers expired. Wages, health care and pensions are among the sticking points.

In November, 400 UAW members went on strike; within a week, the company locked out 3,500 workers at its East Peoria, Ill. sites. In February and March, another 3,500 workers went on strike.

Starting April 1, the company instituted the boost in pension benefits it first offered in February. The basic retirement package increased pension benefits to $31.45 per month per year of service, up from $30.45. On Jan. 1, 1993, it plans to boost those benefits another 5%, to $33 per month per year of service.

Early retirement options, available to those who have worked 30 years at the plant, also were raised beginning April 1, to $1,800 per month from $1,600 per month.

Caterpillar also intends to implement programs designed to control its retiree health costs. Beginning July 1, all employees and retirees have the option of using a managed care health network through one hospital or face a 30% premium on health care costs. Currently, workers and retirees have unlimited health care coverage.

Rich Atwood, a UAW International representative in Peoria, declined to comment on the union's positions on these issues.

But Caterpillar officials heard from angry shareholders and their representatives at its board meeting last week. Jack Marco, president of Marco Consulting Inc., a Chicago firm that consults to union pension funds owning Caterpillar shares, told the board he would like the strike settled.

He said with replacement workers, Caterpillar wouldn't be prepared to take advantage of an economic turnaround, which would cause continued losses to the company and its shareholders. ■

Fund's ex-directors' investments probed

Washington state appoints investigator

By Curtis Vosti

OLYMPIA, Wash. — The attorney general of Washington state has appointed a staff investigator to look into a newspaper's allegations that two former executive directors of the Washington State Investment Board may have violated state law by personally investing — and reaping profits — in stocks in which the board also invested.

Attorney General Ken Eikenberry took the action last week after Dan Grimm, investment board chairman and state treasurer, requested the appointment of a special prosecutor to look into the possibility of conflicts of interest or insider trading violations.

An April 1 copyrighted story in the Seattle Post-Intelligencer said former directors James Hitchman and David Weig invested personally in at least seven stocks that the board had invested in through its $376 million venture capital commitment.

The story appeared only after the newspaper went to court to force the State Investment Board to disclose the individual stock holdings of its venture capital managers. Once successful, they cross-matched the managers' holdings with those of Messrs. Hitchman and Weig.

Mr. Hitchman was executive director from the board's inception in 1981 to 1988, when he left for a higher paying job at Hotchkiss and Wiley, a Los Angeles money management firm. Mr. Weig succeeded him, moving up from deputy director, until he resigned in 1991. Mr. Weig now runs his own consulting business.

Mr. Hitchman wouldn't return phone calls. Mr. Weig denied any wrongdoing.

"I welcome the investigation. I have broken no laws," Mr. Weig said. "I voluntarily disclosed my assets."

Mr. Weig said his investments were made with publicly available information, and any insinuations of insider trading are based on a misunderstanding of the insider trading law and of the state board's role in its venture capital investments.

State criminal and civil law and administrative regulations prohibit officials from personally benefiting from confidential information gained as a result of their positions.

Washington has had a disclosure law since 1972, almost 10 years before the investment board existed.

In 1987, the investment board implemented policy requiring its board, executive directors, deputy directors and senior staff to disclose personal investments. Mr. Weig disclosed his holdings to the state's Public Disclosure Commission until his departure. Mr. Hitchman had filed disclosures from 1977 through 1985. In 1989, the state brought the investment board and its executive director under state disclosure laws.

The allegations largely center around the men's personal investments between 1984 and 1986 in Miniscribe Corp., Denver. The investment board also bought stock in Miniscribe and six other companies through four venture capital funds — Phoenix Partners of Seattle; a venture capital fund run by John Hancock Venture Partners; Energy Recovery Fund of Rockville, Md.; and the state's own $25 million Evergreen fund.

Mr. Hitchman reported his investment in Miniscribe in his last disclosure, dated April 15, 1985, which indicated an investment in 1984 of between $5,000 and $10,000.

Mr. Weig said he bought some of the stocks before and some after the board's investments. He acknowledged he used public information that he had easier access to than the average person because of his position. But he said he had no influence over the board's decision to invest in the stocks, because the board didn't choose the stocks. The board essentially invested in a blind pool.

See **Probe** *on page 39*

AP WIDE WORLD PHOTOS

The late Robert Maxwell's Mirror Group pension funds have new trusteeships.

Maxwell unit forms new plans

By Margaret Price

LONDON — Robert Maxwell's Mirror Group Newspapers PLC has agreed to create two new pension plans, one of which will be funded through corporate earnings.

The decision follows months of intense publicity surrounding about $870 million (about 500 million pounds) in pension assets and corporate assets Mr. Maxwell is said to have stolen from the Mirror Group before his death in November.

In addition, new trusteeships have been created for the company's pension plans.

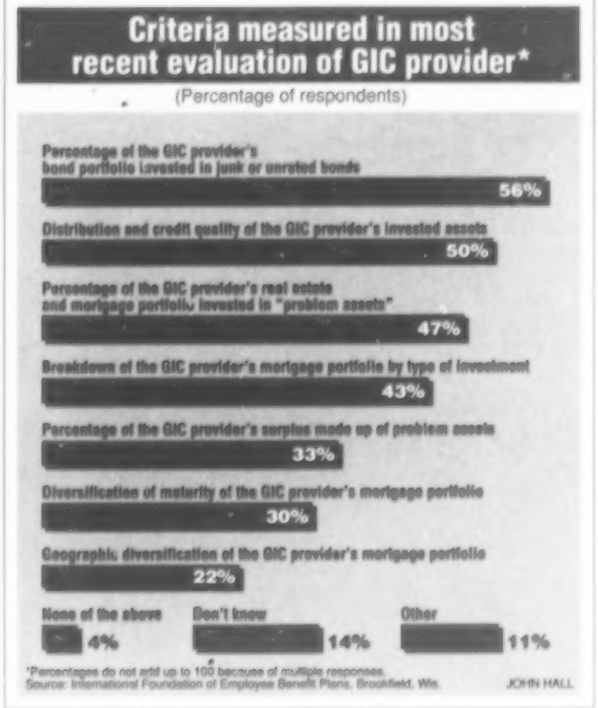
Now, half the directors will be company appointees and half will be employees and pensioners; all factions of the board will have to approve investment decisions. Previously, only one member of the board was an employee representative, and investments were put in the hands of a three-member board subcommittee.

And, unlike the past, no securi-

See **Maxwell** *on page 41*

INVESTING

Employees turning more negative on GIC holdings


Criteria measured in most recent evaluation of GIC provider*
(Percentage of respondents)
Percentage of the GIC provider's bond portfolio invested in junk or unrated bonds
56%
Distribution and credit quality of the GIC provider's invested assets
50%
Percentage of the GIC provider's real estate and mortgage portfolio invested in "problem assets"
47%
Breakdown of the GIC provider's mortgage portfolio by type of investment
43%
Percentage of the GIC provider's surplus made up of problem assets
33%
Diversification of maturity of the GIC provider's mortgage portfolio
30%
Geographic diversification of the GIC provider's mortgage portfolio
22%
None of the above
4%
Don't know
14%
Other
11%
*Percentages do not add up to 100 because of multiple responses.
Source: International Foundation of Employee Benefit Plans, Brookfield, Wis.
JOHN HALL

■ There's more bad news for issuers of guaranteed investment contracts.

Nearly one-third of plan sponsors with participant-directed GICs who were polled by the International Foundation of Employee Benefit Plans said they reduced, or planned to reduce, their exposure to GICs because of insurer solvency concerns.

In addition, nearly nine in 10 of the 55% sponsors who said their employees changed their perceptions toward GICs in 1991 reported the change was to a more negative view.

Of the 311 respondents to the survey by the Brookfield, Wis.-based foundation, 183 offered participant-directed GICs. That group indicated that, in the previous 12 months, they increased their scrutiny of GICs.

Almost half said they had changed their perceptions of the importance of the ratings issued by independent ratings services, and 67% of those thought the ratings were more important than before.

While only 18% of those GIC-laden sponsors said they had purchased or increased their purchase of GIC alternatives, 75% of those purchased GIC alternatives, such as synthetic GICs, to lower their exposure to conventional contracts.

— *Curtis Vosti*

PEOPLE

Perot sets his sights on directors

■ H. Ross Perot, currently weighing a third-party candidacy for president, recently unleashed his famed Texas wit on corporate directors.

The colorful founder of Electronic Data Systems Corp. — who became a thorn in the side of General Motors Corp.'s board of directors after GM bought EDS — and current chairman of Perot Systems Corp. thinks most corporate directors are "brain dead," and that some executives are "running on remote control" while being paid the salaries of rock stars.

AP/WIDE WORLD PHOTOS

H. Ross Perot said some corporate executives run "on remote control."

He provided a sampling of his quips at a forum sponsored by the Securities and Exchange Commission on corporate governance and U.S. competitiveness. Among his bon mots:

- On corporate directors: "A disproportionate number are what I would call house cats who are left indoors. If there's anything duller than being on a board in corporate America, I don't know it."
- On management's approach to institutional investors: Institutions get "the sort of treatment you'd give a big tiger that lived in your backyard. You make sure he doesn't get out of the cage."
- On GM executives who leave no free time to talk with front-line employees: "If I wanted to be scheduled in like that, I'd have been a dentist."
- On the SEC's role in stimulating corporate competitiveness: Noting how a grain of sand causes an oyster to produce a pearl, Mr. Perot said, "The SEC's role is to irritate the oyster."

— *Joel Chernoff*

ECONOMY

Managers test their skills with '92 projections

■ Seventy-four investment managers looked into their crystal balls and predicted modest growth in the gross national product and restrained levels of inflation in 1992.

The "fearless forecasters," part of an informal poll conducted by William M. Mercer Inc. Asset Planning Practice, New York, were considerably more optimistic than the 100 managers responding to the poll a year ago. Last year's predictions turned out to be too pessimistic. The year-end surge in the market and drop in interest rates, the report said, surprised the prognosticators.

For 1992, more than a third of the managers predicted the GNP would rise 1% to 1.9%, and another third expected it to rise between 2% and 2.9%. Although 62% foresee a flat economy overall, 28% expect the economy to put in a strong showing, while 10% saw continued recession.

In the market, a third of the managers anticipated the Dow Jones Industrial Average coming in between 3000 and 3199, and more than a fourth expect it to range between 3200 and 3399.

Half of the participants saw modest inflation, with the Consumer Price Index for the year ranging between 3% to 3.9%.

Turning their attention to politics and national policy, 93% of the managers expect George Bush to be re-elected, 73% anticipate a tax cut, nearly 90% see the federal deficit increasing from 1991 levels and only 14% expect a national health care program to be implemented.

— *Sabine Schramm*

TRADING

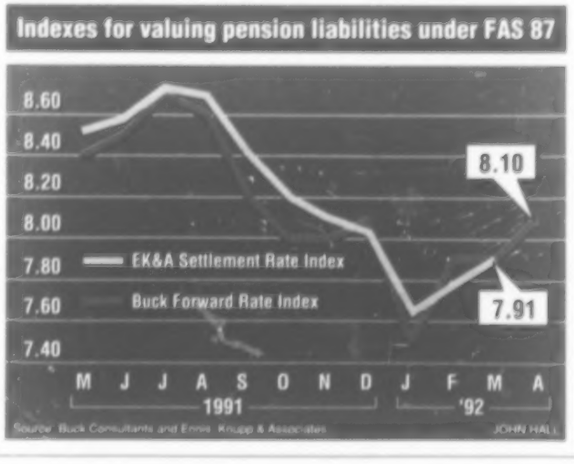
Sounds like it's a jungle out there

■ The folks at Plexus Group, Santa Monica, Calif., have come up with an 18-point list of everything they know about institutional trading, easily digestible within 15 minutes.

Some examples:

- There are four kinds of players in the market, and you can't trade well unless you know who you are: *Sheep* know nothing that suggests the current price is wrong; *wolves* expend significant resources to know what is about to happen to the price. Then there are *wolves in sheep's clothing*, about whom Plexus says: "Wolves naturally like to hide in sheep's clothing, since sheep always run from wolves." And, there are *sheep in wolves' clothing*, who are noise traders who know less than they think, and are everybody's favorite trading partner.
- Minimum impact is sub-optimal. Only stocks readily available will be bought, and there might be good reasons they are available. If you let the market pick the stocks you are going to get, you will get only bad ones.
- Small-capitalization stocks demand different trading tactics from big-cap stocks. Small stocks don't bounce back as well when the trading pressure recedes.
- Know the limitations of size, speed and liquidity. Otherwise, your best ideas might not be implementable. Elephants simply cannot hide in the strawberry patch. If you're an elephant, use your weight to your advantage.

— *Nancy K. Webman*



REAL ESTATE

Kateley joins Heitman Financial

■ Richard Kateley, former president and chief executive officer of Real Estate Research Corp., joined Heitman Financial Ltd., Chicago, as executive vice president and director of research.

R. Kateley

In his new position, Mr. Kateley is responsible for developing real estate investment vehicles, as well as working with the firm's clients on economic and market trends.

Kenneth P. Riggs, who joined RERC last year and most recently held the position of senior vice president and national director of the firm's valuation practice, has been named president.

Mr. Kateley, a well-known real estate economist, had been with Chicago-based RERC for 14 years. He is perhaps best known for his work with the annual "Emerging Trends in Real Estate" report.

"Richard Kateley brings an in-depth knowledge of real estate and capital markets to our company," Norman Perlmutter, chairman of Heitman Financial, said in a statement. "He has earned an impeccable reputation nationally for his real estate forecasting ability, and we feel confident his background provides us with even greater coverage and understanding of the future trends facing our clients."

Heitman Financial is the parent of Heitman Advisory Corp., which oversees a realty portfolio valued at about $7 billion for its institutional clients.

— *Chuck Paustian*

INTERNATIONAL

U.K. execs' expectations too low

■ Trustees for pension funds in Britain should set far higher performance targets for their investment managers, says Tim Congdon, an an economist at Gerard & National, a London brokerage firm, and managing director of its subsidiary Lombard Street Research.

"The targets that are currently set are too easy when compared with the returns on British shares over the long term. Trustees expect real long-term returns of only 4% to 4.5%, whereas the economic expectation is for 4% to 6.5%, over the past 40 years," he told pension fund managers at a recent investment conference in Eastbourne, England.

Near term, however, Mr. Congdon expects equity returns for the 1990s to be "somewhat less than the historic norm."

Mr. Congdon generally recommends pension funds have a high proportion of equities in their portfolios. But, with equity returns off and the inflation outlook good, "there are good arguments for gilts in pension funds."

— *Aidan O'Sullivan*

FEES

Negotiation is in for international

■ Strong competition for international investment business has given sponsors more authority in negotiating fees with investment managers, according to a recent survey by SEI Capital Placements, Chicago.

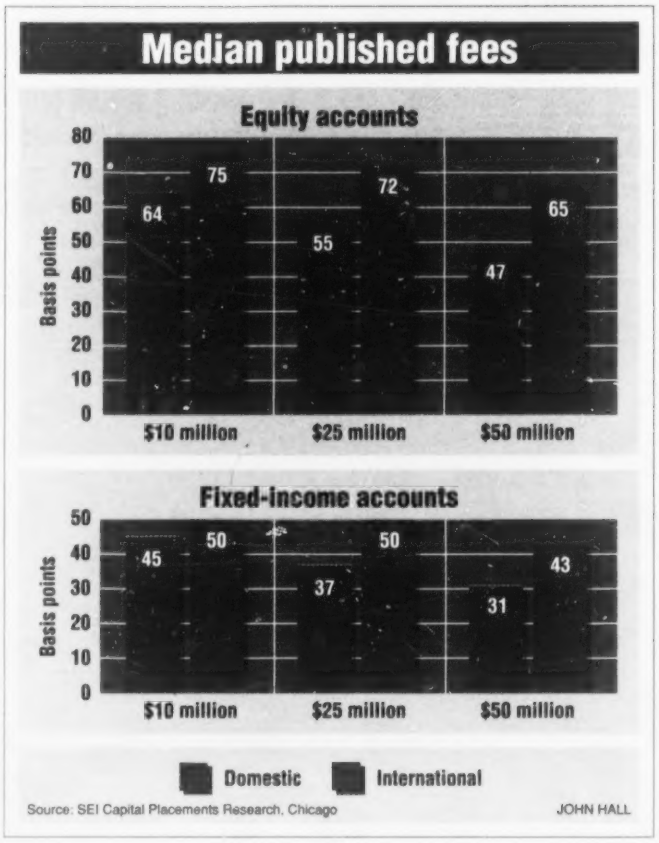
With approximately 160 international managers to choose from — as opposed to only 27 in 1981 — sponsors can shop around on managers' fees.

Median fees charged by international managers included in SEI's data base since its previous survey in 1988 were relatively unchanged, and those new managers on average charged higher median fees.

All of the 108 active international managers surveyed planned to maintain current fees during the next 12 months.

The surveyed managers indicated that fees for the next five to 10 years would remain the same or decline. A few predicted fees would level off as management firms consolidate into a few, large, well-established global money management organizations. Most agreed the increase in competition would exert pressure on fees in the next few years.

— *Sabine Schramm*



INTERNATIONAL

Hungarian debt fund is launched

■ Foreigners will have an opportunity to invest in Hungarian government debt through a new forint-denominated fund.

The fund, to be launched by Creditansalt Securities of Budapest, is expected to provide a return of at least 30% per year. The fund will have a five-year life, and will offer 100,000 units of 10,000 shares worth $13.5 million.

Csaba von Csiky, a senior member of Creditansalt Securities, says he expects country funds, high-yield funds and private investors to subscribe. "I think we can expect a return of 35% on this investment. Hungarian government debt instruments yielded between 31% and 37% in 1991," he said.

New laws allowing such funds were enacted Jan. 1. Foreigners still are prohibited from buying Hungarian government debt directly, but they can invest through an investment fund.

Investors will be allowed to transfer dividends and any proceeds, or dispose of units in the fund, in the currency in which they originally invested, Mr. von Csiky said. The fund will consist of government bonds, notes or bills. The fund will be listed on the Budapest Stock Exchange and the third tier of the Vienna and Stuttgart exchanges.

The launch of the fund comes at a time when Hungary is trying to reduce its inflation to 20% this year from 35% in 1991.

But Mr. von Csiky pointed out Hungary has a policy of not trying to reschedule its debt, which totals $20 billion.

— *Aidan O'Sullivan*

SOCIAL INVESTING

Ethics, responsibility fuel new fund

■ A mutual fund portfolio investing in 200 companies demonstrating corporate responsibility and ethical business behavior is being offered through The Infinity Mutual Funds Inc., New York.

The Covenant 200 includes companies like **Federal Express Corp.**, **Alberto-Culver**, **BankAmerica Corp.**, **Hershey Foods Corp.** and **Johnson & Johnson**. Portfolio stocks are picked from 1,000 of the largest U.S. corporations that meet standards generated by Covenant Investment Management, Chicago.

"We hope to destroy the myth that there is a negative trade-off between corporate responsibility and competitive financial return," said Anthony Bune, vice chairman at Laidlow Holdings Asset Management Inc., New York. The firm is sub-adviser to the Covenant Portfolio.

Anthony Bune says returns and corporate responsibility can go hand in hand.

In an 18-month study, Covenant generated its criteria based on a survey of 9,000 opinion leaders — such as corporate chief executives, members of Congress, state and local officials, university presidents and religious leaders. Selections are based on the corporations' continued success in meeting standards in eight areas that compete for corporate focus and resources: communities, competitors, customers, employees, environment, shareholders, social issues and suppliers.

Corporate behavior was evaluated through questionnaires sent to the corporations and supplemented by publicly available information from computer data bases, watchdog groups and government agencies.

So far, the Covenant 200 has attracted about $6 million from investors, but none is institutional.

— *Sabine Schramm*

PEOPLE

Founder takes Gorbachev's advice

■ Philip Schaefer's most recent hurrah was organizing an October pensions conference in Russia.

Now, Mr. Schaefer — a former managing director of Bear Stearns & Co. in San Francisco and founder of the Pensions in the Nineties conference program for public funds — has a new firm called Pensions 2000.

This four-person, San Francisco-based organization will be sponsoring conferences for pension funds, mostly public, and engage in assort types of investment activities, particularly in emerging markets, starting with Eastern Europe and the former Soviet Union.

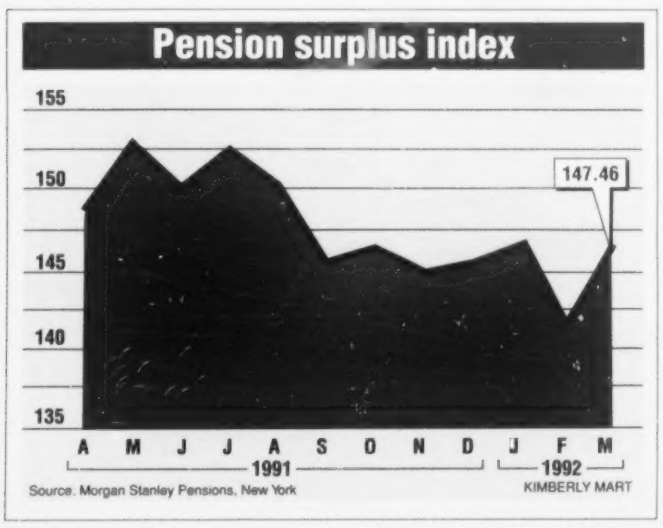
In addition, Mr. Schaefer — who visited the Kremlin during the October trip to Russia — will help host Mikhail Gorbachev during part of his May visit to the United States. In a sense, he'll be repaying a favor. "I took Gorbachev literally when he said (last October) to go out and privatize," quipped Mr. Schaefer about his new firm.

In May, Pensions 2000 will hold its first conference, "Capital Gain," in Washington and in Hot Springs, Va. Topics will range from investing issues to raids on pension funds. One special feature: a debate between Harry Schwarz, South Africa's U.S. ambassador, and Lindiwe Mabuza, the African National Congress' chief representative to the United States.

The following conference, in October, will take place at Lake Como, Italy.

A key theme will be the integration of Eastern Europe into the European Community, Mr. Schaefer said.

— *Margaret Price*



ECONOMY

Team proposes a way to rebuild

■ Two economists from The Jerome Levy Economics Institute at Bard College, in remote Annandale-on-Hudson, N.Y., claim they have a novel way to finance infrastructure and rejuvenate the economy, which they claim is in a contained depression.

Infrastructure projects long have been used as a remedy for an ailing economy, but lately the job-creation benefits have taken a back seat to the tax increase consequences.

S. Jay and David A. Levy, chairman and vice chairman, respectively, of the institute, propose the U.S. Treasury finance state and local infrastructure projects by lending 80% of the cost at no interest. The remaining 20% would be lent at market rates by private investors.

"In this arrangement, the only effect on the federal budget would be the negative interest spread each year — the difference between what the Treasury pays to borrow and the zero percent it charges the state or local government," said David Levy, who is also the director of research for the institute.

"That negative spread would be the federal subsidy for the project, and the cost to taxpayers would be spread over the life of the project."

To qualify for the 80/20 financing, projects must have explicit plans for generating revenue for repaying the debt, which is amortized to match the useful life of the investment, according to the Levys, a father-son team.

To avoid "cosmetic vote-getting" projects, New York State Comptroller Edward V. Regan — a member of the institute's board of advisers — said the bonds that would be issued should contain a maintenance covenant, requiring the issuer to establish a maintenance schedule for the life of the project.

— *Terry Williams*

INVESTING

Active managers to get the ball

■ During the next three years, 76% of pension plan sponsors, money managers and consultants expect less money to go to passive investment options, according to a survey by Callan Investments Institute, San Francisco.

About two-thirds of passive investing by institutions is aimed at large-capitalization domestic equities, with the Standard & Poor's 500 Stock Index the major benchmark, according to Callan. "The fact that active managers outperformed this benchmark in the last two years is likely one of the reasons for the slowdown," said Ronald D. Peyton, president and chief executive officer at Callan Associates Inc.

Callan consultants also speculated the introduction of active equity products that mimic the exposure characteristics of the S&P 500 might be another reason for reduced interest in passive vehicles.

The survey also found pension plan sponsors believe passive portfolios were most susceptible to underperformance in declining markets and in asset classes with the largest pockets of inefficiencies in them. The results indicated small-cap and international fixed-income and equity were the least appropriate for indexation.

Of the 176 respondents, 39% believed active management added the greatest value in declining markets, 7% believed value was added in rising markets, 47% said both, and 7% said neither one.

— *Sabine Schramm*

P&I's 1992 salary survey

Corporate

1992 salary	1991 salary	1991 bonus	Fund size ($ millions)	Defined benefit	Defined contribution	Internally managed: Equities	Internally managed: Fixed income	Title	Years in job
320,000	320,000	0	5,000	y	y	y	y	VP-investments	1
263,000	252,000	200,000	2,500	n	y	y	y	Managing director	18
240,000	220,000	40,000	1,000	y	y	n	n	Senior VP/treasurer	1
225,000	175,000	40,000	10,001	y	n	y	y	Managing director	3
220,000	220,000	160,000	10,000	y	y	y	y	VP-investments	15
218,000	218,000	87,000	500	y	y	n	n	Senior VP-finance	9
200,000	180,000	60,000	1,000	y	y	n	n	CFO	5
200,000	190,000	50,000	2,500	y	y	y	y	VP	9
200,000	200,000	0	500	n	y	n	y	Trustee	20
190,000	190,000	48,000	2,500	y	y	n	n	VP-treasurer	5
180,000	170,000	19,000	2,500	y	y	n	n	Asst. treasurer	11
175,000	165,000	0	1,000	y	y	y	y	Treasurer	15
175,000	165,000	50,000	500	n	y	n	n	Treasurer	10
172,750	162,200	26,000	500	y	y	n	n	Exec. VP, CFO	9
165,000	155,000	45,000	5,000	y	y	n	n	Director-pension funds	14
160,000	158,333	32,472	10,001	y	y	y	y	Exec. director	9
156,000	156,000	53,000	5,000	y	n	y	y	Chairman, pension trust	5
152,000	141,000	25,000	5,000	y	y	n	n	Asst. treasurer	1
140,000	130,000	125,000	1,000	y	y	n	y	Treasurer-finance	10
140,000	130,000	20,000	1,000	y	y	n	n	VP-investments/pensions	13
140,000	140,000	0	5,000	y	y	n	n	VP	15
137,000	130,000	15,000	10,000	y	y	n	n	Manager, finance	5
136,000	131,000	100,000	5,000	y	y	n	n	Director trust investments	5
135,000	122,000	67,100	1,000	y	y	n	n	Asst. VP	7
128,000	122,000	0	1,000	n	y	n	y	Investment officer	27
127,000	122,000	7,200	500	y	y	n	n	Treasurer	3
125,000	125,000	42,000	2,500	y	y	y	n	President	5
120,000	110,000	25,000	500	y	y	n	n	Asst. VP/director of benefits	12
120,000	120,000	0	250	y	y	n	n	VP/asst. treasurer	10
120,000	120,000	47,000	500	y	y	n	n	VP/controller	3
118,000	110,000	15,000	1,000	y	y	y	y	Director-pension investments	4
118,000	118,000	10,000	1,000	y	y	n	n	Treasurer	14
116,000	110,000	92,000	1,000	y	y	n	y	Asst. treasurer	5
114,000	99,000	0	250	y	n	n	n	VP/treasurer	1
114,000	109,000	13,000	1,000	y	y	n	n	Asst. treasurer	3
114,000	110,500	0	5,000	y	y	n	n	Director-trust investments	8
113,000	109,000	17,000	2,500	y	y	y	y	Director-investment mgmt.	3
111,000	109,000	20,000	500	y	y	n	n	VP-treasurer	12
110,000	100,000	10,000	5,000	y	y	n	n	Director-investments	6
110,000	110,000	0	250	y	n	n	n	VP/CFO	2
110,000	110,000	30,000	2,500	y	y	n	y	Director-investment mgmt.	8
108,000	103,000	0	1,000	y	y	n	y	Asst. treasurer	6
105,000	105,000	13,000	2,500	y	y	n	n	VP-pension fund mgmt.	5
104,100	98,700	12,200	2,500	y	y	y	n	Director	9
103,200	97,200	0	500	y	y	n	n	Asst. treasurer	8
103,000	98,700	18,000	2,500	y	y	n	n	Asst. VP asset mgmt.	5
102,000	96,000	15,000	2,500	y	y	n	n	Director-trust funds	8
102,000	97,000	13,000	2,500	y	y	n	n	Asst. treasurer	10
102,000	97,000	0	1,000	y	y	n	n	Manager	5
101,500	97,500	17,600	1,000	y	y	y	y	Asst. treasurer	11
100,000	100,000	20,000	5,000	y	y	y	y	Director-finance	25
100,000	100,000	0	2,500	y	y	n	n	Asst. treasurer	3
98,200	93,500	19,400	500	y	y	n	n	Director-benefit finance	6
97,400	97,400	19,500	500	y	y	n	n	Director-benefits	5
96,000	90,000	17,000	2,500	y	y	n	n	Asst. treasurer	4
95,000	92,000	16,000	1,000	y	n	n	n	Director-pension investments	1
94,000	88,000	8,000	2,500	y	y	n	y	Director-trust investments	1
93,000	90,000	0	500	y	n	n	n	Plan administrator	10
92,000	88,000	8,000	1,000	y	y	n	n	Director-pension investment	12
92,000	92,000	45,000	10,000	y	y	n	n	Manager-pension plan coordination	7
90,000	86,000	27,000	2,500	y	y	y	y	VP-director trust financial services	5
89,500	87,000	42,000	2,500	y	y	n	y	Asst. treasurer	5
89,500	89,500	14,000	2,500	y	y	n	n	VP-benefits	7
89,000	80,000	25,500	1,000	y	n	n	n	Director-pension investments	2
88,000	82,000	12,000	1,000	y	y	n	n	Director-retirement plans	4
86,500	85,000	27,000	500	y	y	n	n	Trust administrator	10
85,000	80,000	0	2,500	y	y	n	n	Director	1
85,000	82,000	12,000	500	y	y	y	n	Asst. treasurer	12
84,700	84,700	9,000	500	y	y	n	n	Director	6
84,000	81,000	24,000	2,500	y	y	n	n	Director-financial planning	5
83,000	80,000	5,000	1,000	y	n	n	n	Manager-trust investments	17
82,800	80,000	12,000	1,000	y	y	n	n	Manager	1
82,000	77,000	5,000	1,000	y	y	n	n	Director-benefits	4
81,500	79,300	8,000	10,001	y	y	n	n	Investment director	5
79,000	75,000	0	1,000	y	n	n	n	Director-investment mgmt.	7
78,000	78,000	0	500	y	y	n	n	Manager-finance	1
77,000	72,000	7,000	250	y	y	n	n	Treasurer	4
77,000	74,000	10,000	500	y	y	n	n	Manager-trust investments	3
77,000	77,000	17,000	10,000	y	y	n	n	Asst. VP-investment mgmt.	8
75,000	70,000	0	1,000	y	n	n	n	Director-pension administration	5
75,000	71,000	19,000	2,500	y	n	n	n	Manager-pension investments	6
75,000	75,000	12,000	500	y	n	n	n	VP-pension investments	4
74,500	71,000	2,000	10,000	n	y	n	n	Manager-trust investment	1
73,000	71,000	28,000	500	y	y	y	y	Asst. VP	15
72,000	72,000	21,000	1,000	y	y	n	n	Director-investments	1
70,772	68,184	0	1,000	y	y	y	n	Investment manager	8
70,000	65,000	0	2,500	y	y	n	n	Manager-benefit funds	7
68,796	65,520	0	500	y	y	n	n	Manager-pension investment	2
67,000	65,000	0	1,000	y	y	n	n	Asst. treasurer-pensions	2
66,000	63,000	0	2,500	y	y	n	y	Treasurer	7
66,000	66,000	0	1,000	y	n	n	y	Manager-pension fund	1
62,800	59,400	0	1,000	y	y	n	n	Manager-investments	4
60,500	55,000	0	2,500	y	y	n	y	Manager-investments	2
60,000	55,000	0	2,500	y	y	n	n	Trust funds manager	1

P&I's 1992 salary survey

1992 salary	1991 salary	1991 bonus	Fund size ($ millions)	Defined benefit	Defined contribution	Internally managed: Equities	Internally managed: Fixed income	Title	Years in job
59,800	59,800	0	500	y	n	n	n	Director-trust assets	6
58,000	56,000	0	2,500	y	y	n	y	Manager-investments	7
50,000	45,000	0	2,500	y	y	n	n	Manager-benefits finance	4
47,000	45,000	0	2,500	y	n	n	n	Manager-pension investments	2
Public									
138,000	125,000	50,000	5,000	n	y	n	n	Sr. VP/CIO	5
115,000	100,000	25,000	2,500	y	n	n	n	CIO	1
108,000	108,000	0	10,000	y	n	y	y	Investment officer	21
104,000	100,000	0	10,001	n	y	n	y	Director-investment office	5
98,000	94,000	0	2,500	y	n	y	y	Administrator	5
98,000	96,000	0	10,001	y	n	n	y	Investment manager	25
95,700	94,500	18,690	10,001	y	y	y	y	Exec. director	3
95,000	92,471	0	1,000	y	y	y	y	Exec. director	5
94,060	94,060	0	5,000	y	n	n	n	Exec. director	14
93,000	93,000	0	2,500	y	n	n	n	Retirement administrator	3
90,000	85,000	0	2,500	y	n	n	n	General manager	3
90,000	85,000	0	10,000	y	n	n	n	CEO	11
88,000	80,000	0	500	y	n	n	n	Exec. director	3
86,700	78,612	0	10,000	y	y	n	y	State treasurer	26
86,000	86,000	0	5,000	y	n	y	y	CIO	4
85,500	85,500	0	10,000	y	n	y	y	Investment officer	9
85,000	85,000	0	10,001	y	n	y	y	Director-investment	16
85,000	85,000	0	1,000	y	n	n	n	Exec. director	9
83,000	80,000	0	5,000	y	n	y	y	State investment officer	17
82,000	73,000	0	2,500	y	n	y	y	Investment officer	10
82,000	82,000	0	2,500	y	n	n	n	Administrator-retirement systems	8
80,000	75,000	0	2,500	y	n	n	n	Exec. director	5
78,500	78,500	0	10,001	y	n	y	y	Exec. director	10
78,000	75,000	0	5,000	y	n	n	y	CIO	5
75,629	71,754	0	1,000	y	y	n	n	Deputy exec. director	4
74,900	74,500	0	1,000	y	n	n	n	Exec. director	2
74,000	72,500	0	1,000	y	y	n	n	Investment manager	15
72,000	70,000	0	5,000	y	n	n	y	CIO	5
71,200	71,200	0	2,500	y	n	n	n	Exec. director	4
71,000	71,000	0	1,000	y	n	n	n	Administrator	15
70,000	66,000	0	2,500	y	y	n	n	Exec. director	14
70,000	68,000	0	1,000	y	n	n	n	Exec. secretary	13
69,967	69,895	2,925	1,000	y	n	n	n	Administrator	3
69,000	63,000	0	10,001	y	n	n	n	CIO	6
68,608	64,000	0	1,000	y	y	n	n	Deputy exec. director	1
66,620	60,526	0	2,500	y	n	n	y	Deputy director, finance	4
65,280	65,280	0	2,500	y	n	n	n	Exec. director	13
65,000	60,000	0	500	y	n	n	n	Exec. secretary	8
65,000	65,000	0	10,001	y	n	y	y	CIO	5
63,544	61,745	0	500	y	n	n	n	Retirement administrator, Treasurer	4
62,500	60,400	0	5,000	y	n	n	y	Director-investments	5
62,212	58,274	0	5,000	y	n	y	n	Assoc. investment officer	5
62,000	59,000	0	5,000	y	n	n	n	Investment officer	7
62,000	62,000	0	2,500	y	y	n	n	CIO, treasurer	6
61,000	59,000	0	5,000	y	n	n	n	Investment officer	7
61,000	61,000	0	500	y	n	n	n	Exec. director-retirement	2
60,800	60,800	0	1,000	y	y	n	n	Director-retirement	5
60,300	60,300	0	1,000	n	y	n	n	Exec. director	5
60,000	60,000	0	5,000	y	n	n	n	Investment officer	1
60,000	60,000	0	2,500	y	n	y	y	CIO	3
60,000	60,000	0	1,000	y	n	n	n	Investment officer	1
59,000	57,000	0	2,500	y	n	n	n	Asst. retirement director	3
57,375	57,375	0	10,000	y	n	n	n	Deputy director-investments	6
56,000	56,000	0	500	y	n	n	n	Benefit administrator	5
53,600	53,600	0	1,000	y	n			Exec. director	8
52,000	52,000	0	250	y	n	n	n	Retirement manager	12
50,000	48,000	0	500	y	n	y	n	Manager-pension investments	4
50,000	50,000	0	1,000	y	n	n	n	Director-employee retirement	1
48,000	47,000	0	2,500	y	n	n	n	Deputy director	1
47,000	42,000	1,100	500	y	n	n	n	Retirement manager	4
45,000	45,000	0	500	n	n	n	y	Investment officer	8
44,000	42,312	0	500	y	n	n	n	Retirement administrator	20
38,000	36,000	0	5,000	y	n	n	n	Assoc. director-investment	10
38,000	38,000	0	500	y	n			Pension manager	1
28,700	28,700	0	2,500	y	n	n	n	Assoc. director-investment	1
Union									
150,000	150,000	0	1,000	y	n	n	n	Exec. adm. director	3
124,000	120,000	0	1,000	y	n	n	n	Administrator	9
116,000	110,000	0	2,500	y	y	n	n	Fund director	14
100,000	100,000	0	2,500	y	y			Administrator	1
92,000	89,000	0	250	y	n	n	n	Plan manager	14
88,000	86,000	0	5,000	y	y	n	n	Director-investments	5
83,700	82,000	0	500	y	n			Co-administrator	12
81,000	78,000	4,500	1,000	y	y	n	n	Fund office administrator	8
78,000	73,000	3,500	1,000	y	y			Pension manager	1
78,000	78,000	0	500	y	y	n	y	General manager	13
75,044	66,755	11,000	250	y	n			Controller	20
75,000	72,000	0	1,000	y	y	n	n	Investment manager	5
72,000	68,800	0	250	y	y	n	n	Fund manager	3
72,000	72,000	0	500	y	n	n	n	Administrator	28
69,300	66,000	0	500	y	n	n	n	Administrator	6

Some respondents are not listed and some titles have been altered to avoid identification

Salaries

Continued from page 1

vey showed, is $115,500 and the average salary is $132,536; for those who do not manage money internally, the median salary is $92,550 and the average salary, $103,000.

For public pension funds, the median salary for those managing assets internally is $83,000 and the average is $84,671, while for those who do not, the median is $65,395 and the average is $68,468.

About 250 executives of all fund types responded to the survey, but only 237 provided complete answers to all questions before the deadline for responses.

The salaries reported by the executives varied widely among corporate pension executives within a given fund size range, whether or not they managed assets internally.

For example, corporate executives whose pension funds are $500 million or smaller reported 1992 salaries ranging from $46,000 a year to $218,000 a year, with a median of $89,750 and an average of $101,461.

The highest salary, $218,000, was reported by a senior vice president of finance who said pension management was only a small part of the job, although the executive had responsibility for investment policy, asset allocation, manager selection and manager monitoring.

Among corporate funds in the $501 million to $1 billion range, salaries were from $62,800 to $240,000, with a median of $101,750 and an average of $113,246.

The highest salary was reported by an executive with the title of senior vice president and treasurer. The lowest salary was reported by an executive with the title of manager-investments.

The wide variation persisted even among the largest corporate funds. For funds with assets of more than $5 billion, the lowest salary was $74,500 and the highest was $320,000.

The executive with the lowest salary had the title of manager-investments. The executive with the highest title was vice president-investments.

Likewise, there was wide variation in salary levels within groups of public funds of similar size, although the variation was not as great as among corporate funds. For example, the highest salary among funds with assets of up to $500 million was $88,000 and the lowest was $38,000.

Among the largest public funds, those with assets of more than $5 billion, the lowest salary was $57,375 and the highest was $200,000, with a median of $85,500 and an average of $93,596.

The executive with the low salary was a deputy director and the fund had only a small amount managed internally. The executive with the high salary was chief investment officer with billions managed internally.

For Taft-Hartley funds, the highest salary overall was $150,000, and the low was $37,875. There was an insufficient number of responses to break down the salary ranges for all fund size categories.

For funds with assets up to $500 million, the highest salary was $103,000 and the low was $37,875; the median salary was $68,800 and the average was $70,430.

For executives at funds with assets between $501 million and $1 billion, the highest salary was $150,000 and the low was $72,000, with a median salary of $80,500 and an average of $96,000.

Two-thirds of the corporate pension executives responding reported they also received bonuses, many of which were a substantial percentage of the salary. About half of those receiving bonuses said the bonuses are based in whole or in part on the performance of their funds.

The highest bonus reported by a corporate pension fund executive was $200,000 on top of a salary of $263,000.

The median corporate bonus was $20,000 and the average was $31,069.

Bonuses were not common for public fund executives, with only eight of the 87 public fund executives reporting they received one in 1991.

The highest bonus for a public fund executive was $50,000 on top of a salary of $138,000. The median bonus was $4,750 and the average was $13,589.

Only four of 21 Taft-Hartley fund executives received bonuses, ranging from $11,000 to $3,500. ■

What pension execs earn

Fund size	Salaries			
Public	High	Median	Mean	Low
To $500 mil.	$88,000	$56,000	$58,704	$38,000
$501-$1,000 mil.	95,000	69,287	66,773	39,500
$1,001-$2,500 mil.	115,000	71,490	73,476	28,700
$2,501-$5,000 mil.	138,000	62,500	74,572	38,000
$5,001+ mil.	200,000	85,500	93,596	57,375
Taft-Hartley				
To $500 mil.	$103,000	$72,000	$72,849	$40,000
$501-$1,000 mil.	150,000	83,750	99,083	75,000
$1,001-$2,500 mil.	116,000	108,000	108,000	100,000
$2,501+ mil.	120,000	103,000	103,000	88,000

JOHN SMITHER

Hirings, formerly called money movers, is a section that details the appointments of money management firms for tax-exempt funds.

It appears in each issue of *Pensions & Investments*.

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HARRIS CONVERSATIONS FOR THE 90s:

THE SEARCH FOR SUPERIOR PERFORMANCE

A DISCUSSION ABOUT BENCHMARKING WITH ROBERT CAMP

Finding and implementing "best practices"—simply, the best methods your competitors and other companies use to manage people, bring a product to market, even handle paperwork—is the heart of benchmarking. And benchmarking is key to continuous improvement that will result in superior performance and a competitive edge.

That's the benchmarking gospel according to Robert C. Camp, manager of benchmarking competency for Xerox Corporation.

Executives recently met with Mr. Camp at Harris Bank to discuss how benchmarking can be a practical strategy with quantifiable results. The following is an excerpt from their conversation.

How do I juggle between all the things I know we need to benchmark and what we can afford to benchmark?

Think carefully about high priority areas. Your corporate mission statement should highlight those. Also get input from managers and staff.

Once your priorities are clear, select a project with a narrow scope. There's almost a direct correlation between the success of a project and how narrowly it's defined. What you want are substantive, credible best practices that will make a difference.

Also, make certain you actually start benchmarking instead of getting hung up on where to begin.

You'd be amazed at the number of benchmarking projects that end up as documents collecting dust on someone's bookcase.

How do you decide which companies have the best practices you should be looking for?

Ask your customers; their perceptions may surprise you. They may say a particular company is best, but you know that company's practices are less than leading edge.

In those instances, you may be competing with a company that's best at communicating a perception of excellence. So you need to separate reality from perception. Assemble a list of practices, take it to customers and ask them to prioritize it. When they're through, you'll have a list of fundamental customer requirements. Then you can go to industry associations, benchmarking articles, and vendors and suppliers to find the companies best at filling those requirements.

Should we create a separate benchmarking department to handle this work?

No. The people who work a process know it inside and out and are almost always the best qualified to analyze it. Plus, you want to ensure that those who must implement the changes participate in shaping them. Unless you get a strong employee commitment, you'll have all kinds of problems with implementation.

What do you do when you've identified a best practice? Import it into your own company?

Benchmarking does not mean just blindly copying what other companies do. You want to take advantage of your people's talent and say, "We found this best practice. Now tell us how we can implement it creatively and even go beyond it."

For example, how do you respond to a dissatisfied customer? L.L. Bean takes back any product a customer is unhappy with. That's clearly a best practice. But it isn't what Xerox customers wanted. They wanted their equipment to work, not their money back. So our customer guarantee now says that if you are dissatisfied with a Xerox product within three years of its purchase, we'll replace it until you're satisfied with the product.

How do I get people to benchmark when they may be benchmarking themselves out of a job?

The way you communicate is critical. "Productivity" is often associated with "reduction in force." However, "continuous improvement" simply means everyone working together to improve practices.

But don't people feel frustrated when you keep moving the goal line to success?

In a continuous effort, changing measurements shouldn't be that big a factor. You're elevating your plateau of operations, so the next objective isn't a measurement from where you originally started. It's a measurement from where you are now to the next objective. So you're not making quantum leaps, you're taking small, achievable steps.

Best practices are out there. By taking these small steps, you can find them, make them your own, and put your company on the path to superior performance.

This is the seventh in a series of Harris Conversations for the 90s sponsored by Harris Bank, a leading provider of corporate credit and other banking services to middle market and emerging major companies in the Midwest.

To receive a longer version of this discussion with Robert Camp, call Harris Bank at (312) 461-5554.

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